

# ECONOMIC COLLAPSE AND RURAL DISTRESS: ASSESSING SRI LANKA'S FINANCIAL CRISIS AND ITS IMPACT ON RURAL COMMUNITIES

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## **Abstract**

*This study examines the multifaceted impacts of Sri Lanka's severe financial crisis, which began approximately five years ago, on the financial conditions of rural populations. The crisis, triggered by a confluence of factors including economic mismanagement, the Easter Sunday attacks, and the COVID-19 pandemic, resulted in a crippling shortage of foreign reserves, leading to import restrictions on essential goods, a drastic devaluation of the Sri Lankan Rupee, and soaring inflation. Utilizing secondary data from sources such as the Asian Development Bank, World Bank, and the Central Bank of Sri Lanka, this research investigates the root causes of the crisis and its specific effects on rural sectors. The study focuses on the impact on food production and the resulting food crisis, the tea production sector and its workers, vegetable farming, rural health conditions, and the overall lifestyle of rural workers. Findings reveal a significant increase in poverty, widespread insolvency, and a decline in living standards. The organic farming policy, while well-intentioned, exacerbated the crisis by severely impacting agricultural yields. The study also highlights the disproportionate impact on vulnerable populations, including tea estate workers and vegetable farmers, who faced income loss, food insecurity, and increased debt burdens.*

**Keywords:** Financial Crisis, Sri Lanka, Food Crisis, Mismanagement, Covid-19

## **INTRODUCTION**

A financial crisis is characterized by a sharp drop in asset values, inability of individuals and businesses to pay off debt, and a lack of liquidity for financial institutions. A panic or bank run is frequently linked to a financial crisis, when investors sell off assets or take money out of savings accounts out of concern that the value of such assets would decline if they stay in a financial institution. (Will Kenton, 2024) When the value of assets and financial instruments falls sharply, there is a financial crisis. As a result, financial institutions lack the cash or convertible assets necessary to fund projects and address urgent demands, and businesses struggle to pay their financial obligations. Investors get less confident in the worth of their investments, and consumers' assets and earnings are jeopardized, making it harder for them to make loan payments.

The biggest economic catastrophe since the 1929 stock market crash was this financial crisis. Beginning in 2007 with the subprime mortgage lending crisis, it grew into a worldwide financial crisis in September 2008 when investment bank Lehman Brothers failed. The world economy entered a recession after massive bailouts and other attempts to stop the harm from spreading failed. (Federal Reserve Insurance Corporation). Since its causes, consequences, reaction, and lessons are still applicable to the present financial environment, the 2008 Global Financial Crisis merits special attention as one of the worst economic downturns in modern history. The COVID-19 virus was identified in China in February 2020. Millions were killed and terror was stoked as the sickness quickly spread over the world. As a result, markets plummeted and the financial system's credit came to a complete stop. (Will Kenton, 2024).

Sri Lanka is experiencing a financial crisis that has resulted in significant, double-digit inflation, a decline in its currency, a surge in external debt, and depleted foreign exchange reserves. The causes of the country's economic collapse, such as the concentration of political power, measures that exaggerate the population, and a foolish drive toward organic farming. (Janice Endresen, 2022). For the past five years, Sri Lanka has been gripped by a severe financial crisis as a result of its inability to import fuel, food, medication, and other basic requirements due to a lack of foreign reserves. The reasons behind the crisis are mismanagement of country, Easter Sunday attack and Covid-19 pandemic. The introduction of Organic Farming policies or biological farming system. The biological farming system is the major root cause for the country's production has become depletion which in turn has resulted for the food crisis of the country for the long time. Consequently, the Easter Sunday attack has affected the tourism industry of the country, as tourism industry is the major source of income of the country. Finally, the Covid-19 pandemic attacked the whole economy adversely.

## LITERATURE REVIEW

**Piumika Sooriyaarachchi and Ranil Jayawardena, (2023)** Individual lifestyle choices have changed due to the economic crisis. Alcohol usage and smoking have dropped by 80% and 60%, respectively. Before the crisis, many individuals drove private cars, but now public transport and sustainable modes of travel including walking and cycling are used more. Lower-income Colombo residents walked longer than those in neighbouring districts. **Toshiwa Wijaretne, (2023)** the economy is predicted to recover in 2023 after the COVID-19 pandemic, which requires strong and comprehensive care to avoid persistent economic and health difficulties. COVID-19 has increased poverty and slowed the economy in Sri Lanka. New policies should regulate taxpayers, create community economic opportunities, and promote a green economy to revive the Sri Lankan economy. **Vasitha Abesurya (2022)**. People in Sri Lanka are suffering and the government is struggling most due to the economic crisis. The country is in an economic crisis with significant inflation and financial shortages. The current financial crisis has caused governments and philanthropic organizations to decrease scientific research funding, halt recruiting in university departments and academic institutes, and downsize and restructure science research and development. While the Sri Lankan economy remains shaky and research funding is uncertain, there is little sign of hope. **Dr. Ranju Malik, (2023)**. In April of 2022, the government of Sri Lanka announced that it has temporarily defaulted on all of its external debt in order to avert a hard default. When the news broke, Sri Lanka's record of perfectly fulfilling its external debt was broken. In order to prevent a hard default on its debt, Sri Lanka is planning to restructure its debt, as stated by the Governor of the CBSL. The Sri Lankan economy is uncertain, according to the ground situation, government policies, and world geopolitical and economic developments, particularly the Russia-Ukraine crisis. As Sri Lanka's economic crisis unfolded over several years, this article examines how web-based mass media covered it. The depletion of foreign reserves has heightened apprehensions regarding Sri Lanka's capacity to import necessities and fulfill debt obligations. Sri Lankan authorities acknowledge that currency issues are complicating the payment of import expenses, particularly for essential fuel. **Tripathi Siva, (2022)** Sri Lanka's long-running financial crisis has tested the administration and severely harmed its inhabitants. Lanka is in an economic and political crisis, with rapid growth and unreliable results. Sri Lankan expats must pay money home. Sri Lanka has \$51 billion in external obligations, putting 13 banks on rating watch negative. On the beautiful island, trouble is coming. Approximately 500,000 and more Sri Lankans have become reliant in recent months. Experts assert that the financial crisis may have resulted in more fatalities among Sri Lankans than the corona virus. Power outages and street altercations are prevalent. The establishment of crisis healthcare services is hindered by insufficient manpower and a lack of potable water. Intruders infiltrated security network projects. Sri Lanka faces a more profound issue than financial constraints. **Inci Ötker-Robe & Anca Maria Podpiera (2013)** financial crises can have large short- and long-term social costs, as shown by the global financial crisis. Financial crises suppress economic development, consumption, and investment through product and labor markets, resulting in job losses, lower pay and benefits, and more unemployment. Lower asset values reduce wealth through the financial market, and slowing capital inflows, foreign aid, or remittances increases credit scarcity and cost, which dampens economic activity and employment. **Amir Sufi, Alan M. Taylor, (2021)** Recent research strongly suggests that behavioral biases explain crisis forecasting, with loan growth and asset price increases playing a major role. The imbalances that precede a crisis and the crisis itself cause harmful effects. Financial crises are not random; therefore understanding them requires studying their predecessors, the booms. **Janice Endresen, (2022)** Sri Lanka's financial crisis has resulted in escalating external debt, diminishing foreign exchange reserves, a depreciating currency, and double-digit inflation. The hyper-populist policies, and a poorly conceived transition to organic agriculture contributed to the nation's economic decline. **Jon-Paul Faulkner et al, (2019)** the data show that rural households are still hurt by the crisis, demonstrating that the national economic recovery is unequal and entrenches urban-rural divides. Pre-crisis household characteristics (e.g. financial literacy) or spatial factors affected households' crisis response, suggesting a comprehensive approach to risk and resilience. **Llano, et al. (2009)** The global liquidity shortfall and credit constraint would hurt RFIs and MFIs that cannot mobilize deposits due to banking laws and regulations. These MFIs are mostly non-deposit-taking NGOs. Many NGOs in Cambodia and the Philippines come into this category. MFIs without deposits rely on the lending interest and willingness of domestic commercial and government banks as a safety net. The limit will be commercial finance and government fiscal capacity to continue subsidies. MFIs must have an excellent track record of lending to a growing client base and recovering loans with healthy margins to receive commercial finance.

## OBJECTIVES OF THE STUDY

- To study the root cause of the financial Crisis
- To study the impact of financial crisis on economy
- To study the impact of financial crisis on rural communities

## METHODOLOGY

The research uses secondary data from various reputable sources, including the Asian Development Bank (ADB), World Bank, Central Bank of Sri Lanka, Department of Census and Statistics of Sri Lanka, trading Economics, Inland Revenue Department and World health organization. The research approach involves descriptive analysis to describe the impact of the financial crisis on the rural population of Sri Lanka, focusing on aspects such as food production, tea production, lifestyle changes, education, and economic indicators like exchange rates, GDP, and inflation. The cause-and-effect analysis explores the root causes of the financial crisis and their specific effects on rural sectors. The study uses both quantitative and qualitative data, with the text mainly showing quantitative data tables. The statistical analysis includes descriptive statistics like mean and standard deviation. The study objectives guide the selection of relevant data from identified sources, which are then used to address research questions and provide insights into the financial crisis's impact.

### ANALYSIS OF CAUSE OF FINANCIAL CRISIS IN SRILANKA CAUSES OF FINANCIAL CRISIS

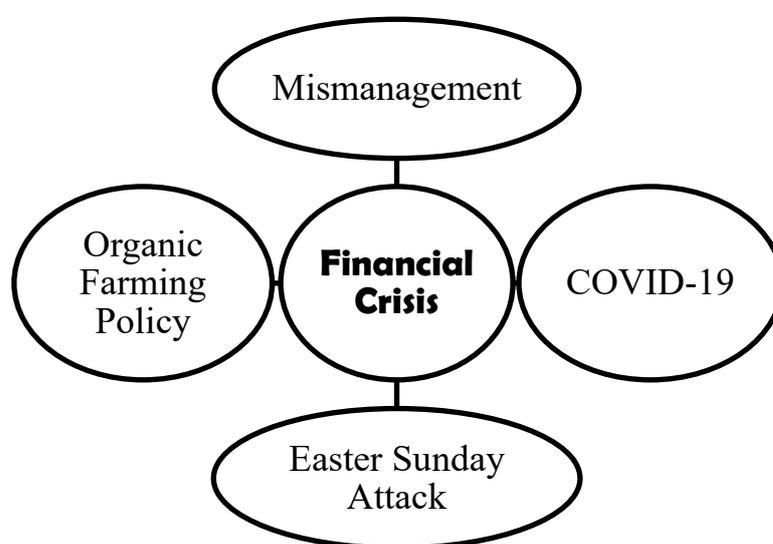


Figure 01: Causes of Financial Crisis  
Source: Author's construction

#### 01. Mismanagement of Revenue and Expenditure

The situation begins with the mismanagement of the revenue and expenditure of the country. Most of the economy depends on the tax revenue of the country, it is the major source of income of a country, the expenditure of the country can be done through the income received in this way. The country's revenue begins to decline following the government's introduction of new tax policies and the implementation of tax reductions. The tax rate for individuals has been decreased to 33.5%, the Value Added Tax (VAT) on goods and services has been lowered to 8%, and the corporation tax rate has been dropped from 28% to 24%. (Inland Revenue Department) Due to these illiterate policies of the government the main source of revenue has affected adversely. By these policies the government led to face the budget deficit. Which means the expenditure of the country exceeded the revenue of the country.

#### 02. Introduction of Organic Farming Policy

Sri Lanka economy always has been trade deficit, as its import bill always has been more than income from exporting. In this condition the government has put the import ban for luxury and other essential items which is more important for the daily requirements such as fuel and food items. The government's intention on this ban is to save the outflow of foreign currency but it may help the economy to the short run only most probably it will affect the export in the long run because the export industry depends on importing of intermediate and capital goods. Import ban affected the exporters immensely. The policy made by the government regarding the import of chemical fertilizers severely affected the agricultural production which in turn has resulted in food crisis and farmers become insolvent.

#### 03. Easter Sunday Attack

The largest crisis since the conclusion of the South Asian island nation's civil war in 2009 is affecting Sri Lanka's economy as a result of the fatal suicide bombings that occurred on Easter Sunday. Islamic militants

were held responsible for the explosions that claimed the lives of over 250 individuals. They are preventing foreign investment and have destroyed Sri Lanka's crucial tourist sector, which provides work for millions. With a political crisis and a deteriorating national deficit and mounting debt, Sri Lanka's economy was already struggling. These difficulties have been exacerbated by the assaults. (Bharatha Mallawarachi, 2019)

Russia-Ukraine war: A startling "price inflation of crude oil, sunflower oil, and wheat" has resulted from the ongoing war between Russia and Ukraine. "Crude oil prices hit a record high" of over \$125 per barrel during the height of the crisis. The lives of regular Sri Lankans are negatively impacted by such sharp spikes in gasoline and goods prices. (Divine Adeniyi, 2022)

#### 04. COVID -19 Pandemic

The World Health Organization (WHO) classified COVID-19 a pandemic illness on March 11, 2020, after announcing it as a General Health Emergency of International Concern on January 30, 2020. Over 303,707 individuals had died and 1.71 million had recovered from the 4.54 million cases that had been recorded by the middle of May 2020 across 215 nations and territories.

The anxiety surrounding this epidemic will have a detrimental effect on Sri Lanka's economy. The nation's financial sectors are impacted by curfews, travel restrictions, airport and seaport closures, and government and public sector holiday declarations. Tourism, tea, and textile exports are the key drivers of our economy. The pandemic had an impact on demand, manufacturing and supply chains, tourism, distribution routes, and trading activities. When the country has been facing the deficit the rating agencies have downgraded the sovereign credit rating. The rating agencies expressed their concern; Consequently, Sri Lanka's state coffers will soon be empty. Once the country faced the budget deficit it intended to print the money to meet the daily expenditure of the country. The shortage of medicines leads to many deaths than the Covid-19 deaths. Most of the specialized doctors intended to migrant to foreign country due to the less pay and dissatisfaction in the field which finally resulted the health sector to dangerous condition.

### ANALYSIS OF THE IMPACTS OF THE FINANCIAL CRISIS IN SRI LANKA

#### 01. THE IMPACTS OF THE FINANCIAL CRISIS ON ECONOMY

The nation has been severely impacted by the financial crisis, which has resulted in widespread demonstrations and resignations from the president's cabinet as well as shortages of necessities and excessive inflation, among other things (Janice Endresen, 2022). The poor rate has been increased to 31% of the population which is account for 7 million people of the country earlier it was 3 million people. Sri Lanka did not fall down because of these reasons it has already fallen because of the unsustainable policies which was made by the government.

##### 1.1 Trend of Gross Domestic Product

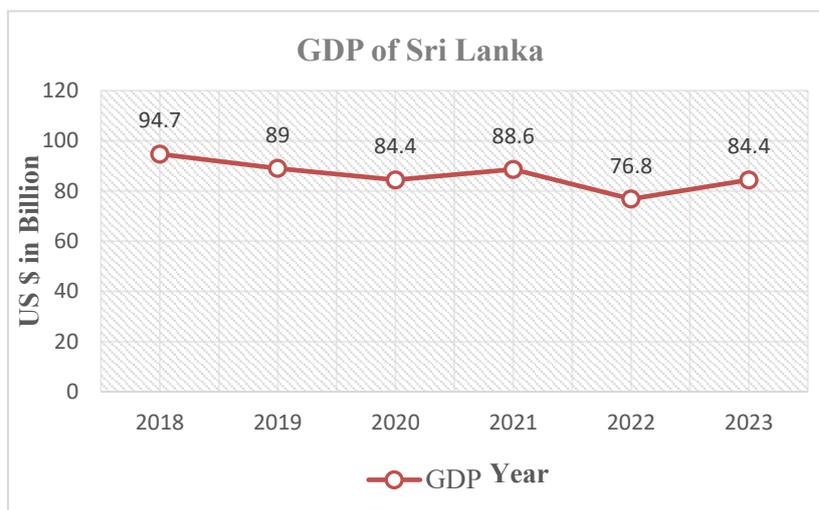


Figure 02: Trend of Gross Domestic Product

Source: Department of Census and Statistics

The line chart illustrates the GDP of Sri Lanka in billion US dollars from 2018 to 2023, revealing a period of economic volatility. Starting at a peak of 94.7 billion USD in 2018, the GDP experienced a gradual decline to 84.4 billion USD by 2020. A modest recovery in 2021 pushed the GDP plummeted to 76.8 billion USD, Finally, in 2023, the GDP rebounded partially, returning to 84.4 billion USD. This fluctuating pattern indicates economic challenges and potential recovery efforts in Sri Lanka during this period.

### 1.2 Trend of Gross National Income

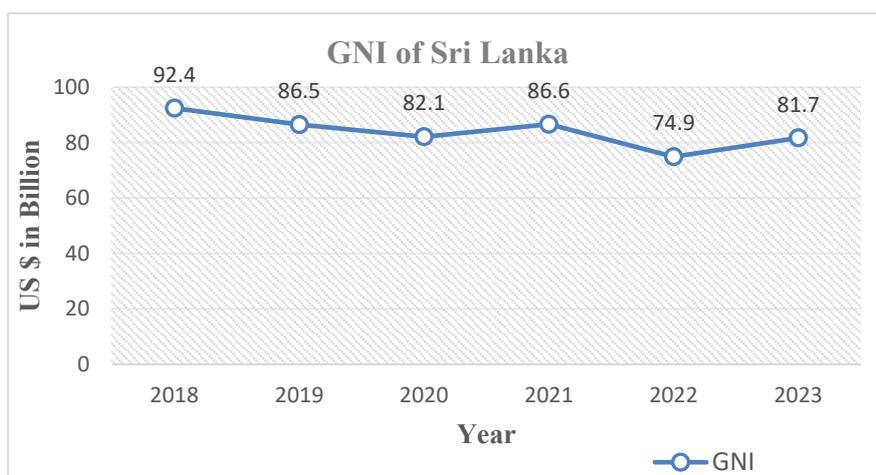


Figure 03: Trend of Gross National Income

Source: Department of Census and Statistics

The line chart illustrates the Gross National Income (GNI) of Sri Lanka in billion US dollars from 2018 to 2023, revealing a period of economic volatility. Starting at a peak of 92.4 billion USD in 2018, the GNI experienced gradual decline to 82.1 billion USD by 2020. A modest recovery in 2021 pushed the GNI to 86.6 billion USD. However, this was followed by a sharp drop in 2022, where the GNI plummeted to 74.9 billion USD. Finally, in 2023, the GNI rebounded partially, returning to 81.7 billion USD. This fluctuating pattern indicates economic challenges and potential recovery efforts in Sri Lanka during this period.

It's worth noting that the GNI trend in this chart is very similar to the GDP trend we analyzed earlier. This is expected, as GNI and GDP are closely related economic indicators. GNI measures the total income received by a country's residents, while GDP measures the total value of goods and services produced within a country's borders. The similarities suggest that the factors affecting Sri Lanka's GDP are also impacting its GNI.

### 1.3 Trend of Import, Export, and Tourist Receipt

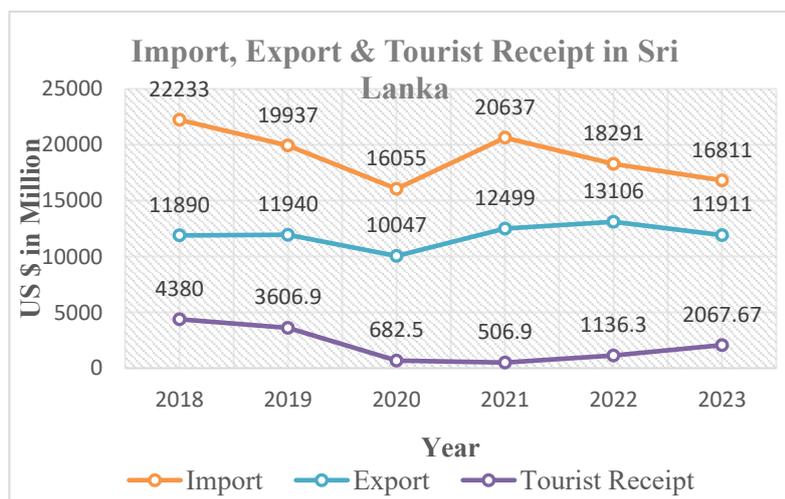


Figure 04: Trend of Import, Export, and Tourist Receipts

Source: Department of Census and Statistics

The line chart illustrates the import, export, and tourist receipt trends in Sri Lanka from 2018 to 2023, measured in US\$ million. Notably, imports, represented by the green line, experienced a general decline through the period, peaking at 22,233 million USD in 2018 and reaching a low of 10,047 million USD in 2020. Likely due to the COVID-19 pandemic, exports depicted by the blue line, showed a more stable pattern with gradual overall decline, fluctuating between 11,890 million USD in 2018 and 11,911 million USD in 2023, also hitting a low in 2020. Tourist receipts, indicated by the yellow line, exhibited the most dramatic decline, plummeting to 682.5 million USD in 2020 before showing a slow recovery. The chart underscores the

significant impact of the 2020 pandemic on all three economic indicators, particularly tourism, and highlights the trade imbalance with consistently higher import values. Overall, the data suggests potential economic challenges for Sri Lanka, necessitating strategies to bolster exports and revitalize the tourism sector.

#### 1.4 Trend of Exchange Rate in Sri Lanka

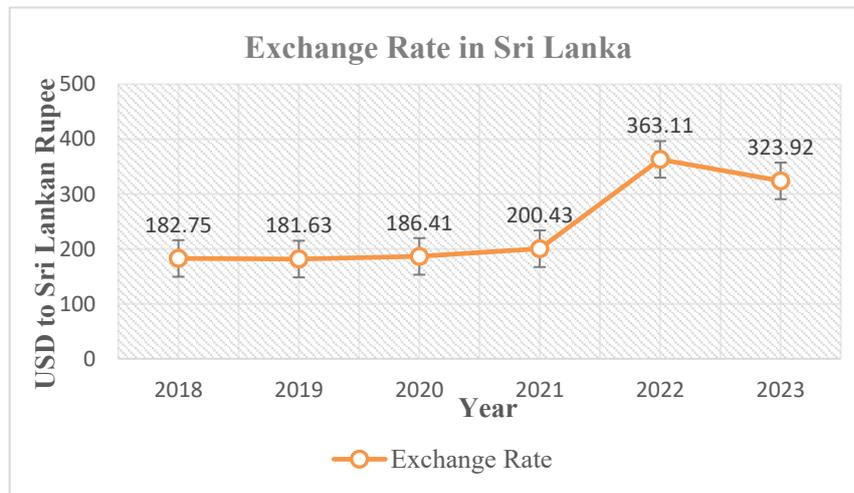


Figure 05: Trend of Exchange Rate in Sri Lanka

Source: Department of Census and Statistics

The line chart depicts exchanges rate of the US Dollar to the Sri Lankan Rupee from 2018 to 2023. From 2018 to 2021, the exchanges rate remained relatively stable, hovering between 180 and 200 Sri Lankan Rupees per US Dollar. However, a dramatic shift occurred in 2022, with the exchanges rate skyrocketing to 363.11 Sri Lankan Rupees per US Dollar, indicating a sharp depreciation of the Sri Lankan Rupee. In 2023 the exchanges rate decreased slightly to 323.92 Sri Lankan Rupees per US Dollar, but still remains significantly higher than the levels observed in the preceding years. This trend suggests potential economic instability or significant economic factors influencing the Sri Lankan currency, particularly in 2022.

#### Possible Contributing Factors for the Sharp Increase in 2022

- Economic Crisis: Sri Lanka experienced a severe economic crisis in 2022, marked by foreign debt defaults, shortages of essential goods, and political instability.
- Currency Depreciation: During economic crises, currencies often depreciate as investor confidence weakens and demand for foreign currency increases.
- Inflation: High inflation can also lead to currency depreciation as the purchasing power of the local currency decrease.
- External Debt: Sri Lanka's high external debt and difficulties in servicing it could have contributed to the currency's decline.

## 02. IMPACT ON RURAL COMMUNITIES

Consequently, people had suffered to lose their standard of life. They sacrificed their land and properties in terms of selling properties and mortgaging the jewelry to feed the stomach.

Each one of the plantation sectors came to the road and start protesting against their rights and the crisis due to the mismanagement and unpractical policies made by them.

Leading life of the rural people becomes more complicated with high financial burden. Some of them committed suicide due to the debt barrowed from the microfinance and other welfare societies not able to settle down. Even they were not in the position to repay the installment amount for the credit what they had taken. As the microfinance companies become key player of their life. They had introduced and provided numerous schemes of loans and financial assistance such as daily loan, weekly loan and monthly loan with high rate of interest. As microfinance companies increased their loan schemes to the needy, the rural people always sitting in front of their door step to get the loan to meet the financial needs. To pay the premium amount of the loan they had taken another loan from different institution as vice versa. The rural people have become more insolvent.

### 2.1. Impact on Agriculture

Since the government introduced the organic and biological farming policies i.e the import ban for chemical fertilizers, pesticides and insecticides the farmers of the country quit the farming activities because the

expenditure of the crop had raised high and the income from the crop was very less compared to earlier farming system. Always they encounter the return from the crop showed the loss. Due to the organic and biological farming system the production of the cultivation crops encountered the setback. The country then intended for the importing of food items which in turn resulted to outgoing of numerous amounts of foreign currencies. Because of this ban the farmers stress level high also they faced some health issues too. The farmers suffered a lot because the crop was not yielded well without chemical and pesticides. The soil was not in the position to absorb the organic fertilizer to yield the crop as the soil always looking for the chemical and it always depend on chemical fertilizers to yield the crop maximum level. This atmosphere insists the farmers to leave the cultivation activities as the income generated from the activities was very less compared to the expenditure occurred for the cultivation activity.

### 2.1.1. Impact on Food Production

Hence, the rice is the fundamental food of Sri Lankan people. Mostly they have rice with curry two times a day, moreover we can mention as a national food of Sri Lanka. The import ban for the Urea and chemical fertilizer also affected the paddy crops of the country, most probably the Urea is the basic material for paddy growth. It has to be applied for the paddy plants from beginning to harvesting stage. The Urea becomes most important ingredient to the Paddy crops, due to the biological system the crop has been diminishing to the root level. Consequences of the disaster the people of the country cried for the food and necessities of import of rice were emerged. During this period of the rural people had gone to ancient fooding style such as having boiled sweet potatoes and tapioca which is the most traditional food item in rural area.

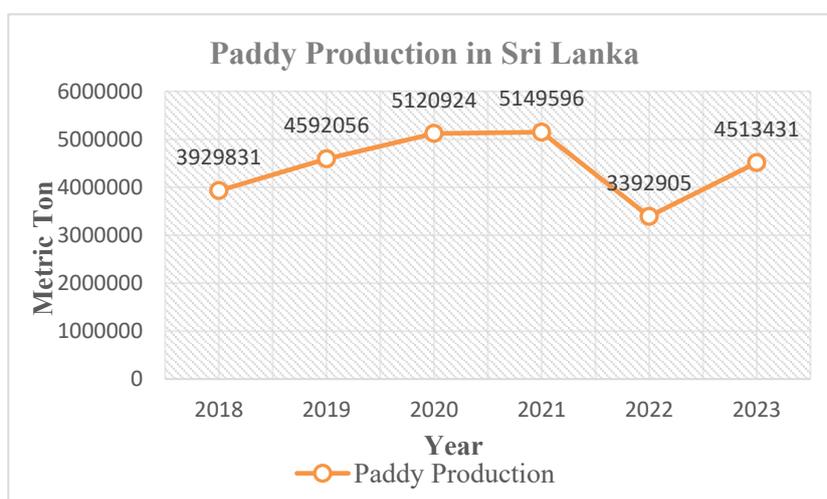


Figure 06: Impact on Food Production

Source: Department of Census and Statistics

The provided line graph illustrates the paddy production in Sri Lanka from 2018 to 2023, measured in metric tons. Starting at 3,929,831 metric tons in 2018, the production shows a steady increase over the next three years, peaking at 5,149,596 metric tons in 2021. This period of growth suggests favourable conditions for paddy cultivation during those years. However, a significant drop is observed in 2022, with production plummeting to 3,392,905 metric tons, indicating potential challenges like adverse weather, disease outbreaks, or economic factors. Fortunately, the production recovers in 2023, reaching 4,513,431 metric tons; through it still remains below the peak levels of 2020 and 2021. This fluctuation highlights the vulnerability of paddy production various external factors and underscores the need for sustainable agricultural practices and effective risk management strategies to ensure to ensure consistent output in the future.

After months of this debilitating economic crisis, families are fatigued and running out of choices. Over 60% of households are consuming less and less nutrient-dense, less expensive food. The government has been compelled to reduce nutrition programs, including school meals and fortified food for mothers and undernourished children, due to budgetary restrictions. Providing emergency food and nutrition support to the most vulnerable populations is WFP's top priority in order to stop their nutrition from further deteriorating. (Abdur Rahim Siddiqui, 2022). In Sri Lanka, an estimated 6.3 million people have moderate to severe acute food insecurity, and if sufficient life-saving aid and livelihood support are not given, their circumstances are predicted to become worse.

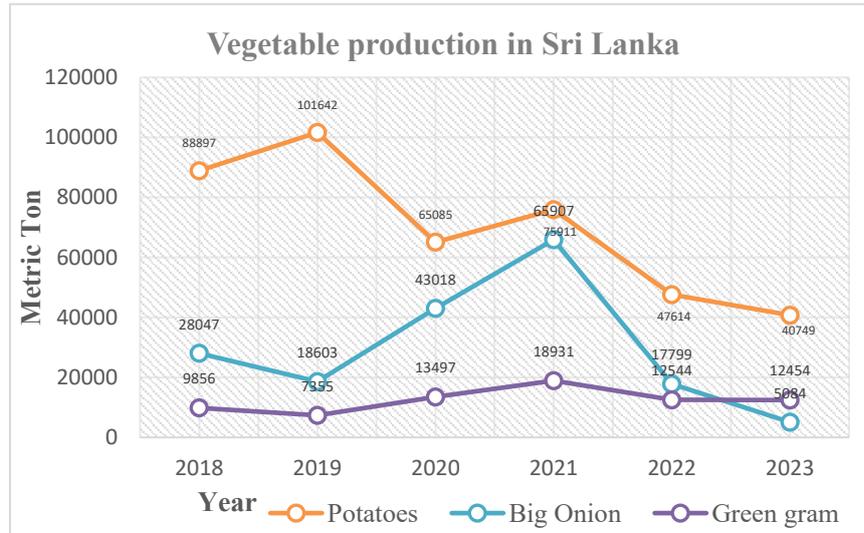


Figure 07: Vegetable Production in Sri Lanka

Source: Department of Census and Statistics

The line graph depicts the vegetable production in Sri Lanka from 2018 to 2023, focusing on three key categories: potatoes, big onions, and green gram, all measured in metric tons. Potatoes exhibit a fluctuating yet generally declining trend. Production started at 88,897 metric tons in 2018, peaked at 101,643 in 2019, and then experienced a steady decline, reaching 40,749 metric tons in 2023. Big onion production shows a more pronounced volatility. It began at 28,047 metric tons in 2018, dropped significantly to 7,355 in 2019, then steadily increased to 65,907 in 2021 before sharply declining big onion cultivation. Green gram production, while lower in volume, also displays fluctuations. It started at 9,856 metric tons in 2018, peaked at 18,931 in 2021, and then decreased to 12,454 in 2023. Overall, the graph reveals that vegetable production in Sri Lanka is subject to significant variations across different categories, highlighting potential challenges in maintaining stable and consistent output. These fluctuations likely stem from a combination of factors, including weather patterns, agricultural practices, market dynamics, and possibly economic or policy changes, which warrant further investigation to ensure food security and sustainable agricultural development in the country.

### 2.1.2. Impact on tea production and tea worker in estate sector

The \$1.3 billion sector employs over 615,000 people and produces the well-known Ceylon tea. About 95% of the 250 million kg of tea produced on the island are exported each year.

(Uditha Jayasinghe, 2024). Moreover, tea production and exporting of tea is major income of the country because tea plays a vital role in GDP of Sri Lanka. It satisfied the domestic market and earning enough amounts of foreign currencies from international market. Sri Lanka is always known for Tea which is called as Ceylon Tea. In Asia Ceylon tea had taken the good reputation for the country. The scent of the tea is different from the other country's Tea. The country was supposed to lose their reputation because of the organic and biological farming system. The tea production of the country also affected without chemical fertilizers. The tea tree was not given the good yield and it has become powerless tree. Gradually the tea estates were supposed to stop their functioning, hence the employee of the estate sector affected adversely as well. Most estate workers don't have any alternative source of income, they depend on their estate works and most estate workers do not have own land to cultivation activities to survive.

Long-term power outages have caused the quality of plucked tea leaves to deteriorate and deteriorate. The lack of fuel and fertilizers has been the main cause of the 18% decline in tea production. (Murali Krishnan, 2022). Then, in 2021, President Gotabaya Rajapaksa outlawed all chemical fertilizers as well as all pesticides and herbicides without consulting the industry. Officials who opposed this approach were either sacked or compelled to leave their positions.

(Rohan Pethiyagoda 2022).

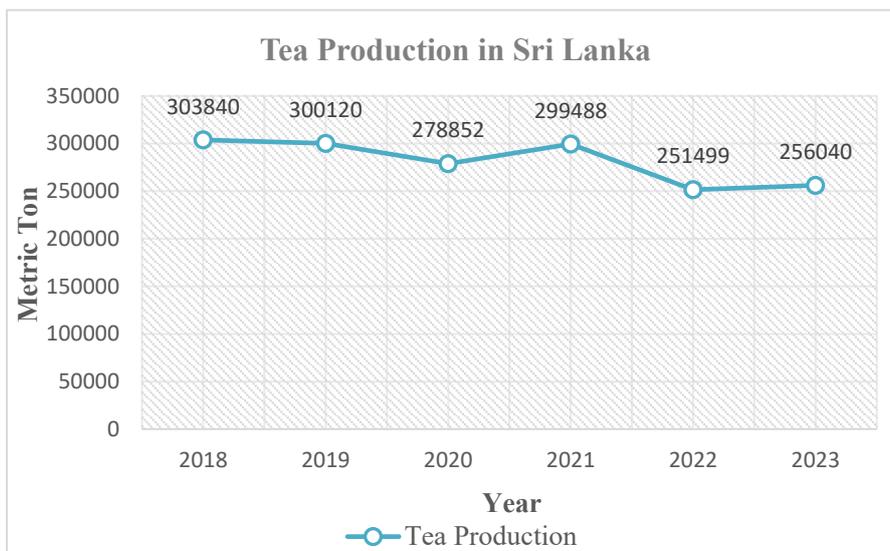


Figure 08: Tea Production in Sri Lanka

Source: Department of Census and Statistics

The line graph illustrates tea production in Sri Lanka from 2018 to 2023, measured in metric tons. The graph reveals a generally declining trend in tea production over this period. Starting at 303,840 metric tons in 2018, the production shows a slight decrease to 300,120 metric tons in 2019, followed by a more noticeable drop to 278,852 metric tons in 2020. There is a slight recovery in 2021, reaching 299,488 metric tons, but this is followed by a significant decline in 2022 to 251,499 metric tons. Finally, in 2023, the production sees a minor increase to 256,040 metric tons, through it remains considerably lower than the levels seen in the initial years. This overall downward trend suggests potential challenges facing the tea industry in Sri Lanka, which could be attributed to factors such as changing weather patterns, labor shortages, economic fluctuations, or shift in global demand. The fluctuations in production highlight the need for careful monitoring and strategic interventions to ensure the sustainability and stability of the tea sector in the country.

Estate workers then finally decided to go for daily wages with lowest pay that was not sufficient to their life. End of the tragedy their children's education was skipped and the children were insisted to take employment as labor at any grocery shops and markets. No one knows about this disaster faced by the estate people during this crisis pandemic. Even the government did not think about this situation which may occur numerous adverse effects to the rural people, still they have been justifying their decision on organic farming policy made by them which was affected vast amount of people at the root level.

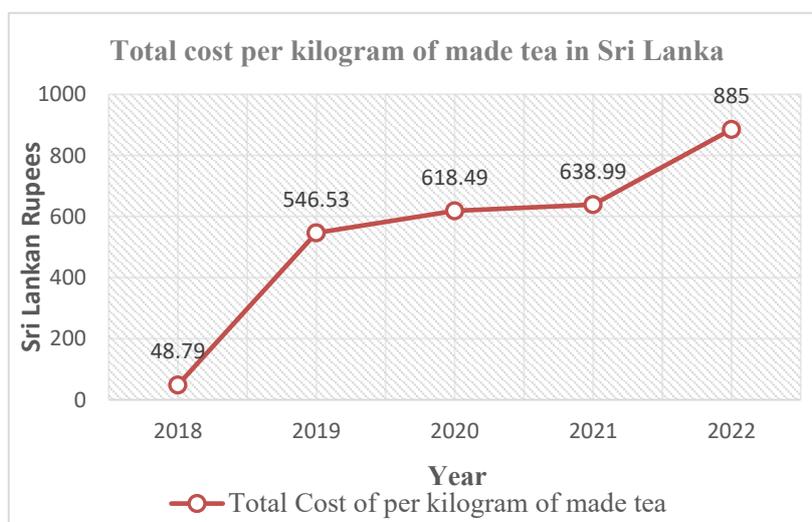


Figure 09: Total Cost per Kilogram of Made Tea in Sri Lanka

Source: Department of Census and Statistics

The line graph depicts the total cost per kilogram of made tea in Sri Lanka from 2018 to 2022, measured in Sri Lankan Rupees. The graph reveals a dramatic increase in production costs over this period. Starting at a remarkably low 48.79 Sri Lankan Rupees per kilogram in 2018, the cost experienced a significant surge to 546.53 Rupees in 2019. This sharp rise suggests a substantial shift in operational expenses within a single year. The cost continued to climb, reaching 618.49 Rupees in 2020 and 638.99 Rupees in 2021, indicating a sustained upward trend. Finally, in 2022, the cost peaked at 885 Rupees per kilogram, representing the highest recorded value in the given timeframe. This escalating cost structure points towards potential economic challenges impacting the Sri Lankan tea industry, such as rising labor costs, increased energy prices, higher fertilizer and pesticide expenses, or currency devaluation. The persistent rise in production costs could significantly affect the competitiveness and profitability of Sri Lankan tea in the global market, requiring careful consideration and strategic adjustments within the industry

### 2.3 Impact on education in rural

Due to the covid-19 the school was shut for a long period, still the education sector is struggling to bring the operation to the normal position. Long period of lockdown has resulted in changing the student's interest to study and indulge in other activities. Following the covid -19 the economic crisis leads to the price hikes of stationary items and clothing items which adversely affected the poor. Especially in rural area, since their income source is very low, they had faced difficult to purchase school items, some students in rural area dropped out the school and started to go for employment at very young age.

Economic development of the country defines the quality of the human capital. Education is the primary requirement for the economic and social well-being. Since the country is providing free education from school to university, the financial crisis has adversely affected daily lives of its citizen including its impact on education. In rural area 55.1 % of the students affected from the financial crisis.

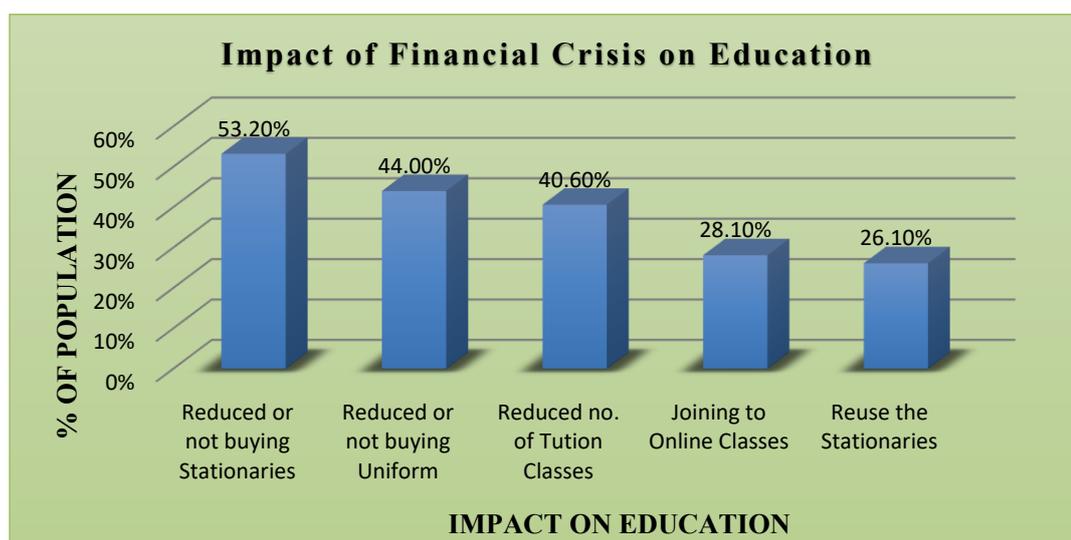


Figure 10: Impact of Financial Crisis on Education

Source: Department of Census and Statistics

Financial Crisis affected the rural people very badly according to the data from census department of Sri Lanka. 53.20% of the student reduced or not buying the stationeries which are the worst situation the rural people ever faced in their life time. 44% of the people reduced or not buying uniform for their children and 40.6% of the Populations reduced their tuition classes for their children. More over the school insist to teachers to utilize the online platform for the classes, hence 28.1% of the population was in the position to join online classes due to the vulnerabilities of their positions. Finally, the students were supposed to use stationeries for their education purpose.

### 2.4 Impact on Life Style of Rural Communities

Over a period of time people had been waiting in a long queue at the fuel sheds and grocery shops to get their staple food items. Long queue at the fuel sheds for more than two days they were waiting for the Kerosene. Rural people especially estate sector people use the kerosene stove to cook the food. Due to unavailable of kerosene the rural people switched their cooking method to older one which is firewood stove. The situation completely changed their life and it has shifted to 30 years backward.

Due to the shortage of fuel the functions of garment industry forced to stop their functioning. Most of estate worker's children is working in garment factories after completing their primary education. They did not have any other option to earn money to lead their family. The nonfunction of the garment factories resulted in losing

their employment and earnings. They returned to home and stayed long period at home without any other income. This problem also enhanced their debt and they suffered a lot. Most young people lost their confident and become helpless to do anything. This kind of situation mostly affect rural people those who don't have savings in life. Day by day the situation become harder.

## FINDINGS OF THE STUDY

The study reveals that Sri Lanka's financial crisis, stemming from economic mismanagement, the abrupt shift to organic farming, the Easter Sunday attacks, and the COVID-19 pandemic, had devastating consequences for rural communities. The mismanagement of revenue and expenditure, particularly ill-advised tax cuts, led to severe budget deficits, while the sudden ban on chemical fertilizers crippled agricultural productivity, exacerbating food insecurity. Rural populations, heavily reliant on agriculture, faced drastic declines in paddy and vegetable yields, forcing many farmers into insolvency. The tea industry, a critical export sector, suffered production drops and soaring costs, leaving estate workers already among the most vulnerable struggling with reduced wages and job losses.

The crisis also disrupted education in rural areas, with over half of students unable to afford basic school supplies, uniforms, or online learning resources, pushing many into child labour. Microfinance debt traps worsened financial distress, leading to increased suicides and asset liquidation among rural households. Additionally, fuel shortages forced communities to revert to outdated cooking methods, further diminishing their quality of life. Government relief measures proved insufficient, leaving rural populations disproportionately affected. The findings underscore how policy failures and external shocks deepened rural poverty, food insecurity, and social instability, highlighting the urgent need for sustainable economic reforms and targeted support for agrarian communities

## CONCLUSION

The study highlights the profound and multifaceted impact of Sri Lanka's financial crisis on its rural communities, driven by a combination of economic mismanagement, ill-conceived agricultural policies, external shocks, and global disruptions. The abrupt shift to organic farming without adequate preparation severely undermined agricultural productivity, leading to food shortages, declining incomes for farmers, and heightened rural poverty. The crisis disproportionately affected vulnerable groups, including tea estate workers and small-scale farmers, who faced job losses, wage reductions, and mounting debt burdens. Additionally, disruptions in education, healthcare, and daily livelihoods further exacerbated the suffering of rural populations, pushing many into extreme hardship. The findings underscore the need for sustainable policy interventions, including agricultural reforms, social safety nets, and economic diversification, to mitigate future crises and support rural recovery. Without targeted measures to address structural vulnerabilities, Sri Lanka's rural communities will remain at risk of prolonged distress, threatening long-term economic stability and social cohesion. The study calls for urgent action to rebuild rural resilience through inclusive growth strategies, better governance, and international cooperation to prevent further deterioration in living standards.

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